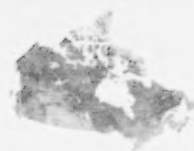




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Fuel Focus

*Understanding Gasoline Markets in Canada
and Economic Drivers Influencing Prices*

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National Overview

Retail Gasoline Prices Declined Nearly 5 Cents per Litre in the Last Two Weeks

The average Canadian retail gasoline price decreased to \$1.32 per litre for the week ending May 1, 2012, down by less than 1 cent per litre from last week and 5 cents per litre compared to two weeks ago. This represents an early decline in gasoline prices near the beginning of the traditional summer driving season.

Diesel fuel prices decreased by 1 cent per litre from last week to \$1.28 per litre, and are slightly less than at this time last year. Furnace oil prices also declined slightly to \$1.20 cents per litre compared to the previous week, and down 1 cent per litre from a year ago.

Global crude oil prices remain firm as OPEC output is at its highest level since 2008 partly compensating for the low Iranian supply in the last few months and recent supply outages in non-OPEC countries. In addition, OPEC spare crude oil capacity has fallen to 3.5 million barrels per day in March 2012 compared to 6 million barrels per day in March 2011 contributing to price firmness.

Recent Developments

- Oil Production to Decrease in Newfoundland:** The Newfoundland and Labrador government expects oil production to fall in 2012 following a year-over-year drop in 2011 and is projecting a budget deficit for the 2012/13 fiscal year of \$258.4 million. The province, which tabled its provincial budget on Tuesday, reported a surplus of \$776.4 million for the 2011/12 fiscal year which ended March 31. Offshore royalties are forecast to fall to \$2.25 billion in the coming fiscal year from \$2.84 billion in 2011/2012 due to planned maintenance at both Terra Nova and White Rose. (Source: Daily Oil Bulletin, April 25, 2012)
- Refiner Updates:** Suncor completed one month of unplanned maintenance on its Upgrader in mid-April, which delayed turnaround on some catalytic units down since a fire on March 3, 2012. Shell Canada restarted its unit at Scotford in mid-March after maintenance. Syncrude is scheduling a turnaround in April. Canadian Natural Resources Limited Horizon Upgrader restarted on March 14, 2012, after a fire on February 5, 2012. (Source: Canadian Association of Petroleum Producers newsletter Crude Oil Report)
- Delta to Purchase a Refinery:** Delta Air Lines Inc. will buy a Pennsylvania oil refinery from ConocoPhillips for \$150 million to save money on fuel costs. Delta said the first ever purchase of a refinery by an airline would allow it to cut \$300 million annually from jet fuel costs, which reached \$12 billion last year. According to Delta, production at the refinery along with other agreements to exchange refined products for jet fuel would provide 80 per cent of its fuel needs in the United States. (Source: Daily Oil Bulletin)

Figure 1: Crude Oil and Regular Gasoline Price Comparison (National Average)

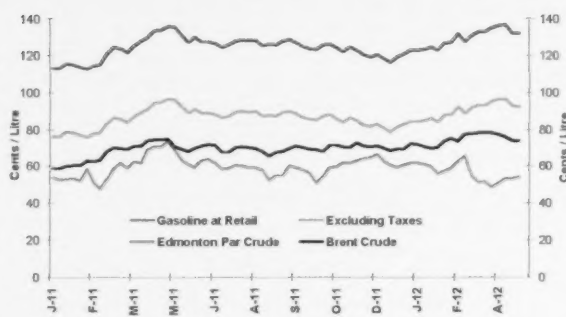
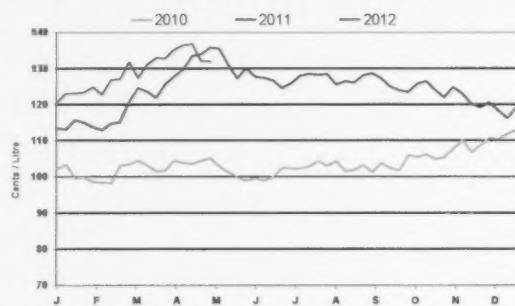


Figure 2: Weekly Regular Gasoline Prices



Changes in Fuel Prices

¢/L	Week of:	Change from:	
	2012-05-01	Previous Week	Last Year
Gasoline	131.9	-0.2	-3.8
Diesel	128.2	-0.9	-0.1
Furnace Oil	119.6	-0.4	-0.6

Source: NRCan

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Retail Gasoline Overview

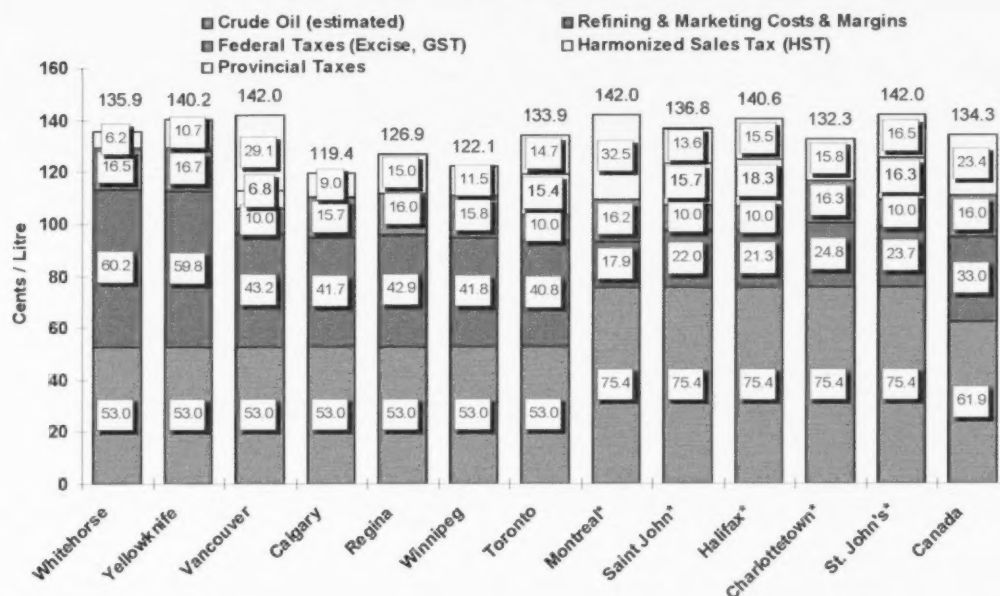
The **four-week average** Canadian pump price in selected cities across Canada was \$1.34 per litre for the period ending May 1, 2012. This represents a 1 cent-per-litre increase compared to the same period in 2011.

For the period ending May 1, 2012, **four-week average** crude oil prices increased slightly by 0.2 cent per litre to 62 cents per litre. The crude oil price component of gasoline is 10 cents per litre lower than at the same time last year.

Over the last two weeks, the average gasoline price decrease in the individual centres was 1 cent per litre. Price fluctuations ranged between a decrease of 2.5 cents per litre in Montreal to an increase of 2.4 cents per litre in Winnipeg.

The refining and marketing costs component decreased by 1 cent per litre to 33 cents per litre. Compared to a year ago, margins are up by 11 cents per litre.

**Figure 3: Regular Gasoline Pump Prices in Selected Cities
Four-Week Average (April 10 to May 1, 2012)**



Source: NRCan

* Regulated Markets

Oil Supply and Demand Dictate Prices

The price of oil is set in the global marketplace. Oil is traded widely all around the world and can move from one market to another easily by ship, pipeline or barge. Therefore, the market is worldwide and the supply/demand balance determines the price for crude oil all around the world. If there is a shortage of oil in one part of the world, prices will rise in that market to attract supplies from other markets until supply and demand are in balance. If there is a surplus in a region and the price drops, buyers will soon be drawn to that market. This explains why events anywhere in the world will affect oil prices in every market.

The price of oil has traditionally been determined by how closely supply and demand match each other. When there is more supply than consumers want, they can shop around for the best price leading to lower prices. If demand is higher than the amount available, consumers will compete with each other, bidding for the supplies they need, driving prices up.

However, it is not only the current supply/demand balance that determines market prices. Buyers and sellers also factor in what they expect will happen to prices in the future. If buyers think that supply might be lower in a few weeks or months and the price could go up, they will want to stockpile some oil now and might even be willing to pay a premium today to protect against a higher price in the future. Similarly, if buyers think that the supply of oil will increase in the future or that the price can be expected to decline soon, they will delay their purchases as long as possible or demand a discount on the price.



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Wholesale Gasoline Prices

Wholesale gasoline prices ranged from 80 to 84 cents per litre in select centres for the **week of April 26, 2012**. Overall, compared to the previous week, Canadian and American centres recorded price decreases of almost 3 cents per litre to increases of nearly 1 cent per litre.

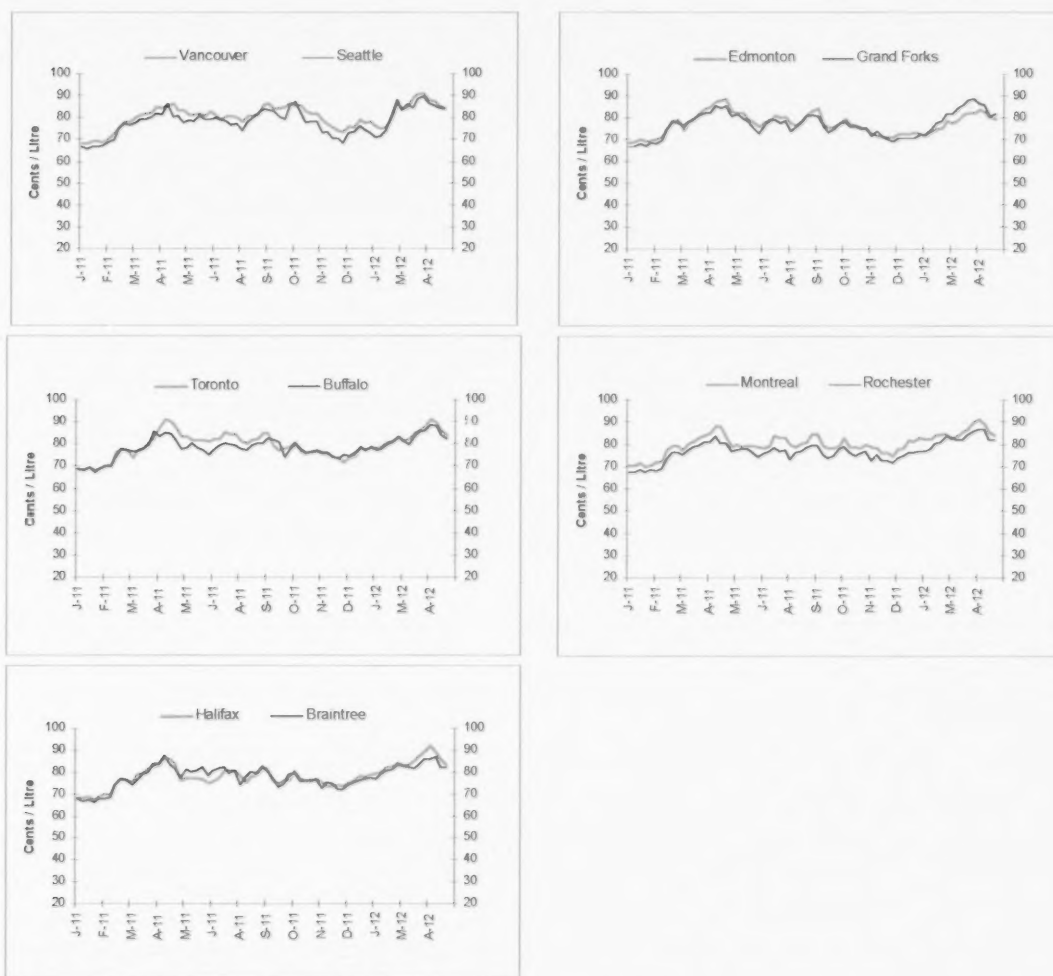
Changes in wholesale gasoline prices in Eastern markets of both Canada and the United States, when compared to the previous week, ranged from an increase of less than 1 cent per litre to a decline of nearly 3 cents per litre and ended the period in the 82 to 84 cent per litre range.

Wholesale gasoline price in Western centres ranged from an increase of 1 cent per litre to a decrease of less than 1 cent per litre and ended the period between 80 and 84 cents per litre.

In the last **four weeks**, wholesale prices in most Canadian and American selected centres have decreased in the range of less than 3 to 7 cents per litre.

Overall, wholesale gasoline prices in most markets are 1 to 7 cents per litre below last year's level.

Figure 4: Wholesale Gasoline Prices
Rack Terminal Prices for Selected Canadian and American Cities Ending April 26, 2012
(Can ¢/L)



Sources: NRCan, Bloomberg Oil Buyers Guide



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Gasoline Refining and Marketing Margins

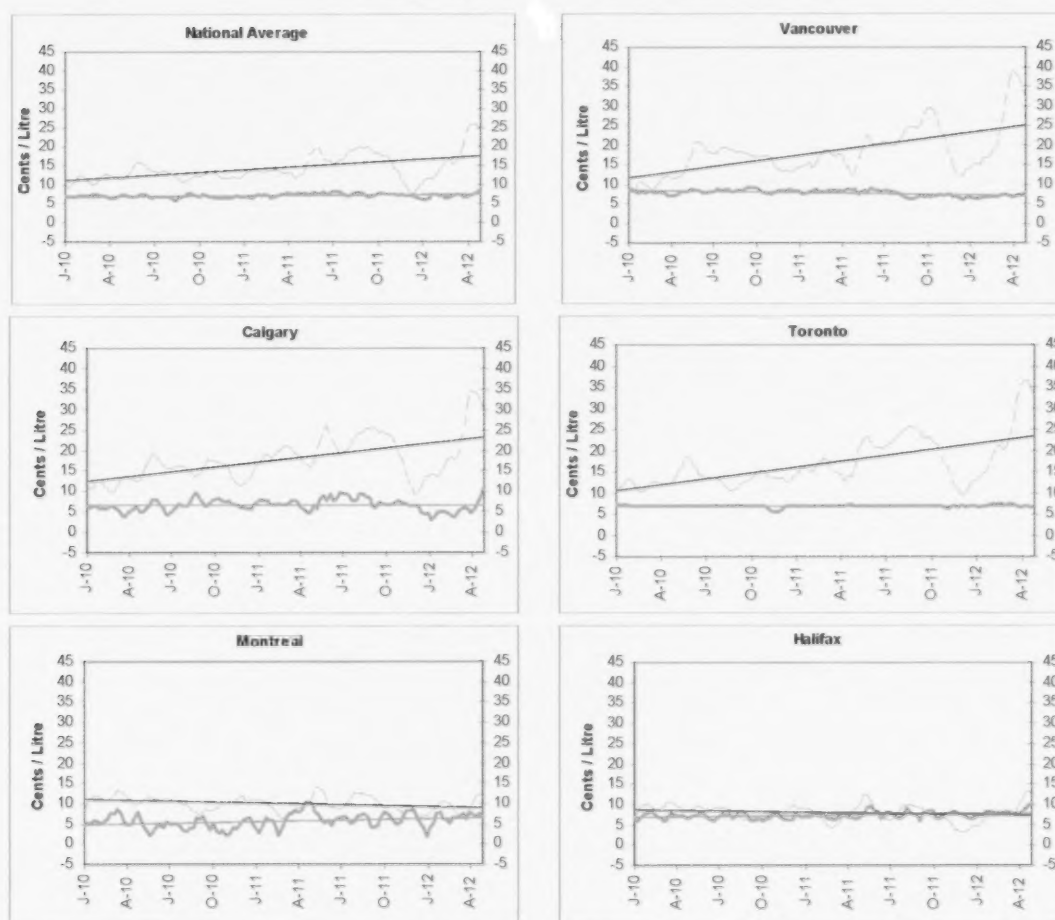
Four-week rolling averages are used for the refining and marketing margins for gasoline.

These refining margins refer to the difference between the cost of crude oil and the wholesale price at which a refiner can sell gasoline. The margin includes the costs associated with refining the product as well as a profit for the refiner. Refining margins declined by 2 cents per litre versus the previous week. Since the beginning of 2012, refining margins have been quite volatile.

Nationally, the marketing margins, defined as the pump price, excluding all taxes, minus the wholesale or rack price, rose to 8 cents per litre, up nearly 1 cent per litre from the same period last year. Marketing margins for the five centres registered between 7 and 11 cents per litre.

Although it represents a small portion of the total pump price, the marketing margin can vary significantly from city to city and region to region.

Figure 5: Gasoline Refining and Marketing Margins
Four-Week Rolling Average Ending May 1, 2012
----- Refining Margin — Marketing Margin



Source: NRCan



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Crude Oil Overview

Low Volatility in World Crude Oil Prices

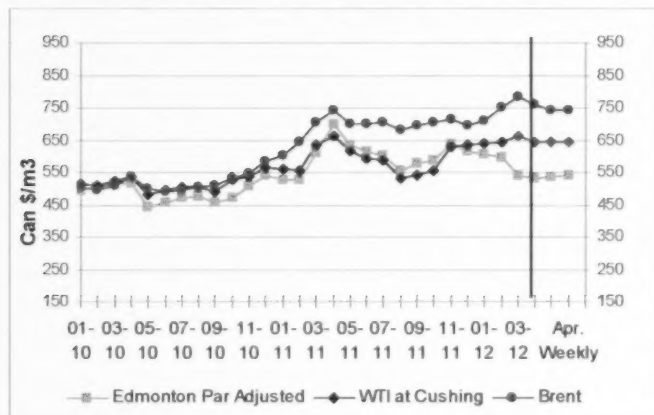
For the week ending April 27, 2012, crude oil prices averaged between \$542 and \$739/m³ (\$US87 to \$US119 per barrel). Global crude oil prices remained almost unchanged in the last two weeks. The price differential between Edmonton Par and WTI has been the \$107/m³ (\$US18 per barrel) range over the past three weeks. Similarly, the WTI and Brent hovered in the \$103/m³ (\$US16 per barrel) range during the same period.

While prices seem to have stabilized over the past few weeks or so, Edmonton Par has been consistently trading at a significant discount to other crude types. Ironically, the successful increased in oil sands production derived crude and the continued pipeline constraints in the U.S. mid-West has meant that Canadian Par crude is having trouble finding a market and has led to heavy discounts.

U.S. crude oil inventories continue to build and are well above the 5-year average range as world demand has slowed. This indicates that world crude oil supply is still more than adequate to meet demand. Conversely, U.S. gasoline inventories have fallen below their five-year average levels which keep upward pressure on prices.

Geopolitical events and the European sovereign debt crisis no longer seem to have the impact on prices that they did in 2011. Currently, the reduction in global demand for oil seems to be the major driver in the decline in crude oil prices with little impact from geopolitical causes.

Figure 6: Crude Oil Price Comparisons



Upgraders Disruption Pull Canadian Crude Prices Down

Production issues related to one of Suncor's upgraders in Alberta's oil sands in March 2012 partly increased the differential in price between Canadian heavy crude oil and the WTI. Suncor announced in mid-March that one of its upgraders would be down for three to five weeks, taking about 200,000 barrel per day (bbl/d) (31,796 m³/d) offline. Another 100,000 bbl/d was offline in February and early March due to unplanned repairs at the Horizon oil sand plant owned by Canadian Natural Resources Limited, bringing total disruptions to about 320,000 bbl/d. Both upgraders are since back online, reducing the price differential between Canadian crude and WTI oil prices.

Western Canada Select (a blend of heavy Canadian crude oil) was trading at a discount price of \$19 bbl/d to the WTI in February 2012, and the gap widened to \$31 bbl/d in March. Edmonton Par crude oil prices were also impacted as the price differential moved from \$7.54 bbl/d in February to \$20 bbl/d in March. As of April, the price discount has returned to normal level.

Source: U.S. Energy Information Administration; Daily Oil Bulletin; NRCan

Changes in Crude Oil Prices

Crude Oil Types	Week Ending: 2012-04-27		Change From:			
			Previous Week		Last Year	
	\$Can/ m ³	\$US/ bbl	\$Can/ m ³	\$US/ bbl	\$Can/ m ³	\$US/ bbl
Edmonton Par	541.51	87.29	+4.53	+1.30	-189.10	-34.74
WTI	643.94	103.80	+0.56	+0.78	-31.00	-8.93
Brent	739.43	119.19	+0.81	+0.92	-7.63	-5.58

Source: NRCan



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